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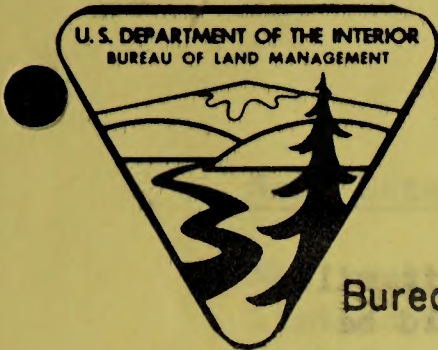
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# TECHNICAL NOTE

Bureau of Land Management U.S. DEPARTMENT OF THE INTERIOR

Subjects: Mineral Valuation, Tax Laws, Recent Changes  
Tax Laws, Recent Changes

References: Newsletters from the American Mining Congress and  
the National Coal Association.

Data:

The Tax Reform Act of 1969 made several changes which affect the tax treatment of minerals production and therefore affect BLM mineral valuations.

The changes (effective January 1, 1970 or before) which could affect BLM valuations include:

Depletion Rates

<u>Mineral</u>	<u>Formerly</u>	<u>Present</u>
Oil and gas	27.5%	22%
Sulfur, uranium	23	22
"Strategic" minerals <sup>1/</sup>	23	22
Molybdenum	15	22
Iron ore, copper, gold, silver, and oil shale	15	15
Other formerly 15% rate minerals <sup>1/</sup>	15	14
10% rate minerals (includes coal) <sup>1/</sup>	10	10
7.5% rate minerals <sup>1/</sup>	7.5	7.5
5% rate minerals <sup>1/</sup>	5	5

Oil Shale - The point at which mining ends for the purpose of computing "gross income from mining" for depletion was changed from crushed rock to retorted shale oil. The percentage rate is still 15%.

Saline Lakes - (Including Great Salt Lake) - depletion allowed on minerals (other than sodium chloride) produced.

The limitation of 50% of taxable (net) income was retained.

<sup>1/</sup>See Section 613 Internal Revenue Code (26 U.S.C.) for a list of minerals involved.

### Surcharge

Lowered to 5% through June 30, 1970. Unless extended, it will stop on that date. Unless extended, the surcharge should be ignored for valuation purposes.

### Investment Credit

Repealed - No longer needs to be considered in valuation.

### "Minimum" Tax

Certain "preference" items are taxed. Of interest in valuation are two "preference" items:

1. Accelerated depreciation (such as declining balance method) on real property in excess of straight-line depreciation (however, see Depreciation).
2. Percentage depletion allowance in excess of the adjusted basis (cost depletion) at the end of the taxable year involved (without adjustment for the year's depletion).

This "minimum" tax is figured as follows:

10% (Total of preference items less \$30,000 less regular Federal income tax paid)

If a taxpayer has a net operating loss carryover to a succeeding year and preference income in excess of \$30,000, no "minimum" tax is payable at that time, but will be imposed for succeeding taxable years if the net operating loss is used up.

### Exploration Expenditures (Other than Oil and Gas)

If expensed (deducted as a business expense in the year in which made), these items will be "recaptured" after production starts.

Real Estate Depreciation

New real estate, including commercial and industrial buildings, is limited to straight line or 150% declining balance depreciation methods. Used property is limited to straight line depreciation.

Please send any additional references on this subject or other minerals subjects to DSC (D-310). If the complete article or publication is needed, DSC (D-310) will attempt to obtain a copy or a loan for you.

